



County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
<http://ceo.lacounty.gov>

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Chief Executive Officer

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May 21, 2009

To: Supervisor Don Knabe, Chairman
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Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

WASHINGTON, D.C. UPDATE

Federal Fiscal Year (FFY) 2010 Budget

On May 7, 2009, the Obama Administration began releasing more detailed information on the President's proposed Federal Fiscal Year (FFY) 2010 Budget, including proposed funding levels for individual programs, which normally are released by the President in February of each year. In February 2009, the Obama Administration released only an outline of its proposed FFY 2010 Budget because its immediate budget priority had been the enactment of an economic recovery package and because FFY 2009 appropriations for most Federal programs and operations had not yet been enacted.

The Administration's detailed budget proposals are of lesser significance this year because they were released after Congress approved its FFY 2010 Budget Resolution (S.Con.Res.13), which sets spending and revenue targets that will guide Congressional action on FFY 2010 appropriations bills and other fiscal legislation. In addition, the President has far less influence over setting individual Federal program funding levels than the Governor has over State funding levels, because the President lacks line-item veto authority. If the President opposes funding levels in an appropriations bill, which reaches his desk, his only choice is to accept or reject the entire bill. The determination of individual program funding levels and earmarking of project funds in annual

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appropriations bills has been a Congressional prerogative, rarely challenged by any President.

FFY 2010 Budget Resolution

On April 29, 2010, Congress passed its FFY 2010 Budget Resolution (S.Con.Res.13), which provides for FFY 2010 expenditures totaling \$3.555 trillion and an estimated budget deficit of \$1.2 trillion. It sets an overall discretionary spending cap of \$1.086 billion in FFY 2010, which is \$10 billion less than the President requested, and which represents a small percentage increase over FFY 2009. Individual discretionary program funding levels will be determined in FFY 2010 appropriations bills, subject to this overall spending cap. S. Con. Res. 13 also requires new legislation to comply with pay-as-you go ("PAYGO") budget rules requiring any increased mandatory (entitlement) spending, such as Medicaid, to be offset by a corresponding spending decrease and/or revenue increase.

The budget resolution importantly includes reconciliation instructions that the four Congressional Committees, which share jurisdiction over health programs, report legislation to reduce the deficit by \$1 billion through FFY 2014. "Reconciliation" is important because, under Senate rules, a reconciliation bill is not subject to a filibuster, which requires 60 votes to overcome. This means that Senate Democrats would be able to pass health reform legislation on a simple majority vote. Republicans strongly opposed the inclusion of reconciliation legislation. The Democratic Leadership indicate that they will use budget reconciliation only as a last resort if bipartisan health reform legislation cannot be moved through both houses.

President's Detailed FFY 2010 Budget Proposals

Overall Summary: The President's Budget Proposal, which would have the greatest fiscal impact on the County, is the proposed elimination of the State Criminal Alien Assistance Program (SCAAP), funded at \$400 million in FFY 2009. Its elimination would result in an estimated \$15 million revenue loss and corresponding increase in net County costs. Most formula grant programs of County interest would be funded in FFY 2010 at or near their FFY 2009 funding levels, including programs which received funding under the Economic Recovery Act with the notable exceptions of the Community Development Block Grant (CDBG), Clean Water State Revolving Fund (CWSRF), and Drinking Water State Revolving Fund (DWSRF), which would receive major increases. Attached is a table with funding levels for formula grants of County interest.

In addition to proposing the elimination of SCAAP, the President also is proposing to eliminate funding sources for Congressional earmarks, such as those which would fund community development, justice, water, and surface transportation projects. It is extremely unlikely, however, that Congress would eliminate SCAAP or funding for such earmarks. As in the past, FFY 2010 funding levels for individual discretionary programs are likely to reflect the priorities of key Congressional appropriators more than the current President's. Also, as in past years, under most formula grant programs, the County's revenue will be affected more, by changes in how the County (or California) fares under the allocation formulas used to distribute funds than by changes in overall funding levels, which for the most part, do not vary significantly from year to year.

The County could be greatly affected by health reform, but the Obama Administration has not released any specific health reform proposals or major budget proposals relating to Medicaid and other health and welfare entitlement programs, which would affect the County. It also has not released any detailed climate change and surface transportation reauthorization proposals. The Administration is not expected to submit detailed health reform and climate change legislative proposals before Congressional action on such legislation begins.

New Initiatives and Programs: The President's Proposed FFY 2010 Budget includes the following new programs and initiatives of County interest:

- National Infrastructure Bank (\$5 billion in FFY 2010), which would invest funds in large capital infrastructure projects of significant national or regional economic benefit;
- Home Visitation Program, which would provide an estimated \$124 million in matching grants to states in FFY 2010, growing to \$1.8 billion by FFY 2019, for home visits by nurses or social workers to low-income mothers and pregnant women. This program would be a capped entitlement program, which means that its authorizing legislation would be subject to PAYGO rules that require offsetting spending cuts or revenue increases;
- Teen Pregnancy Prevention Initiative (\$164 million in FFY 2010), which would provide \$50 million in formula grants to states and \$110 million in competitive grants to community and faith-based organizations for teen pregnancy prevention activities;
- Choice Neighborhoods Initiative (\$250 million in FFY 2010), which would provide competitive grants aimed at transforming high-poverty neighborhoods with high concentrations of public and assisted housing;

- Sustainable Communities Initiative (\$150 million set-aside of non-formula grant CDBG funds in FFY 2010), which seeks to integrate transportation and housing planning, resulting in more sustainable development patterns, energy savings, reduced greenhouse gas emissions, and lower transportation costs; and
- Energy Innovation Fund (\$100 million in FFY 2010), administered by the Department of Housing and Urban Development, which seeks to encourage residential energy retrofits.

The Administration has not released legislative language for these new programs and initiatives for which authorizing language must be enacted before they can be implemented. It also is not clear whether the Administration will release more detailed proposals later. Past Presidents often have called for the creation of new programs in their proposed budgets without ever submitting detailed proposals.

Health and Human Services: The President supports health reform, which would significantly affect the County, but the Obama Administration has not released any specific health reform proposals or other major budget proposals relating to Medicaid and other health and welfare entitlement programs which would affect the County. The President's Proposed FFY 2010 Budget would fund most Health and Human Services formula grants of County interest at the same level as in FFY 2009, including the Substance Abuse Block Grant, Social Services Block Grant, Community Services Block Grant, and Older Americans Act Programs, as seen in the attached table.

Programs which would receive increased funding in FFY 2010 include:

- Public Health Preparedness Grants (\$15 million increase to \$715 million);
- Hospital Preparedness Grants (\$30 million increase to \$426 million); and
- Ryan White AIDS Emergency Assistance (\$8 million increase to \$671 million).

As in past years, the County's revenue will be affected as much, if not more, by changes in how the County (or California) fares under allocation formula factors used to distribute funds than by changes in overall annual program funding levels.

Justice: In addition to proposing the elimination of SCAAP, the President proposes to eliminate three funding accounts --- Byrne Discretionary Grants, COPS Technology, and Juvenile Justice Discretionary Grants -- used by Congress to fund justice-related earmarks. It is highly unlikely that Congress would eliminate SCAAP and funding for earmarked justice projects. The President proposes to fund the Byrne Justice

Assistance Grant (JAG) at \$512 million in FFY 2010, which is less than the \$532 million appropriated for JAG under the FFY 2009 Omnibus Appropriations Bill. As reported previously, \$2 billion in JAG funding was separately appropriated in the economic recovery bill -- American Recovery and Reinvestment Act (ARRA) of 2009. The President's FFY 2010 Budget requests \$298 million for COPS Hiring Grants, which would be in addition to \$1 billion in COPS Hiring Grant funds included in the ARRA.

Employment and Training: The President proposes that Workforce Investment Act (WIA) Adult, Youth, and Dislocated Worker Programs be funded in FFY 2010 at their current year levels, as seen in the attached table. These WIA Programs received a combined total of \$2.95 billion in funding under the ARRA. The President also is requesting \$50 million for a new Green Jobs Innovation Fund, which would be used to fund competitive grants to train participants for green jobs. The Department of Labor, which would administer this fund, indicates that it is still considering options for how these funds would be awarded and used.

Energy: The ARRA included unprecedented high levels of funding for energy efficiency activities, including \$3.1 billion in State Energy Program (SEP) formula grants and nearly \$2.8 billion in formula grant funding for the new Energy Efficiency and Conservation Block Grant (EECBG), which fund state and local efforts. The President is not requesting any FFY 2010 EECBG funding and is requesting an increase in SEP funding to \$37.5 million in FFY 2010 from its FFY 2009 funding level of \$25 million. This is because the EECBG is a new program, which will take time to implement, and the SEP's ARRA funding far exceeded the total cumulative funding that the program had received since it was created in 1996. In addition, climate change legislation, supported by the President, could provide a substantial increase in available resources for energy efficiency activities, including those administered by State or local governments.

Environment and Resources: The President is proposing major increases in funding for the CWSRF and DWSRF even though they received nearly \$4 billion and \$2 billion, respectively, under the ARRA. Funding for the CWSRF would increase from \$689 million in FFY 2009 to \$2.45 billion in FFY 2010 while funding for the DWSRF would increase from \$829 million to \$1.5 billion in FFY 2010. Both programs allocate funding, by formula, to states, for use in providing low interest loans to help finance State and local water infrastructure projects. The additional funding would increase the prospects that County water projects would be funded in the future. According to the Department of Public Works, the County has submitted 58 project proposals to the State since 2006. Since then, the County has received funding commitments for two water projects -- the Sepulveda Feeder and Marina del Rey Water Main Replacement projects, which were submitted in 2004.

Reflecting the Administration's broader opposition to Congressional earmarks, the President's Budget would eliminate funding for water infrastructure earmarks in the Environmental Protection Agency's (EPA) Budget, citing the fact that Congress earmarked funding for 301 water projects totaling \$145 million in FFY 2009. Those earmarks included \$900,000 for the North Los Angeles Regional Recycled Water Project submitted by the County. The President also proposes to eliminate \$15 million in earmarked funding for California Diesel Emission Reduction Grants, requested annually by Senator Feinstein, who chairs the Senate Interior-Environment Appropriations Subcommittee. It is highly unlikely that such earmarks would be eliminated by key Congressional appropriators, such as Senator Feinstein.

The President proposes to increase Army Corps of Engineers ("Corps") funding for operations and maintenance from \$2.2 billion to \$2.5 billion in FFY 2010, but reduce funding for construction from \$2.1 billion to \$1.7 billion and investigations from \$168 million to \$100 million in FFY 2010. A combined total of \$4.1 billion in ARRA funds were appropriated for these Corps activities so there still would be far more available funding for Corps projects during FFY 2010 than in recent years. The President's Proposed Budget does not request any funding for the Marina del Rey Dredging Project. However, the Congress typically funds numerous projects not included in the Corps' annual budget requests.

Housing and Community Development: The President's Proposed FFY 2010 Budget would increase CDBG formula grant funding by \$543 million to nearly \$4.18 billion in FFY 2010. This funding increase would be in addition to \$1 billion in CDBG funds appropriated in the ARRA. The increased CDBG formula grant funding would be financed, in part, by eliminating roughly \$350 million in CDBG set-aside funding that Congress has used to earmark funds for individual projects. However, it is highly unlikely that Congress would agree to eliminate CDBG funding of earmarks.

The President also is proposing to increase funding for Section 8 rental assistance and administrative fees, the Public Housing Operating Fund, Homeless Assistance Grants, and the HOME Investment Partnerships formula grant, as seen in the attached table. While the Public Housing Capital Fund would be reduced by \$141 million to \$2.2 billion in FFY 2010, total available funding for the Public Housing Capital Fund during FFY 2010 still would be far higher than in past years because the ARRA appropriated \$4 billion for that fund.

Homeland Security: The President is proposing to increase Urban Area Security Initiative Grant funding by \$50 million to \$872 million in FFY 2010 while funding three state formula grants -- the State Homeland Security Grant (\$890 million), Interoperable

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Emergency Communications Grant (\$50 million), and Emergency Management Performance Grant (\$315 million) at the same level as in FFY 2009.

FFY 2010 Appropriations Process

The House and Senate Appropriations Committees have held informational hearings on the FFY 2010 Budget, but have not yet marked up any of the 12 FFY 2010 appropriations bills. Committee action on the bills is expected to begin in June.

We will continue to keep you advised.

WTF:GK
MAL:MT:sb

Attachment

c: All Department Heads
Legislative Strategist

**PRESIDENT'S PROPOSED FEDERAL FISCAL YEAR 2010 BUDGET FOR
FORMULA GRANTS OF COUNTY INTEREST
(in millions)**

PROGRAMS	2009	2009 ARRA⁽¹⁾	President 2010
<u>Justice</u>			
State Criminal Alien Assistance Program	\$ 400	0	0
Byrne Justice Assistance Grant	532	2,000	512
Juvenile Accountability Block Grant	55	0	55
Southwest Border Prosecutor Program	31	0	30
<u>Health and Human Services</u>			
Public Health Preparedness Grants	700	0	715
Hospital Preparedness Grants	396	0	426
Ryan White AIDS Emergency Assistance	663	0	671
HIV/AIDS Prevention ²	692	0	745
Sexually Transmitted Disease Prevention ²	152	0	153
Tuberculosis Control ²	144	0	144
Maternal and Child Health Grant	662	0	662
Substance Abuse Block Grant	1,699	0	1,699
Mental Health Block Grant	400	0	400
Social Services Block Grant	1,700	0	1,700
Community Services Block Grant	700	1,000	700
Child Welfare Services	283	0	283
Refugee Social Services	154	0	154
Refugee Targeted Assistance	49	0	49
Older Americans Act (OAA) Family Caregivers	154	0	154
OAA Congregate Meals	434	65	434
OAA Home-Delivered Meals	214	32	214
OAA Nutrition Services Incentive	161	0	161
OAA Supportive Services	361	0	361
<u>Homeland Security</u>	890	0	890
State Homeland Security Grant Program	822	0	872
Urban Area Security Initiative Grant	50	0	50
Interoperable Emergency Communications Grant	315	0	315
Emergency Management Performance Grant			
<u>Labor</u>			
Workforce Investment Act (WIA) Adult Training	862	500	862
WIA Youth Training	924	1,200	924
WIA Dislocated Workers	1,184	1,250	1,184
Title V Older Americans Employment	572	120	575

PROGRAMS	2009	2009 ARRA⁽¹⁾	President 2010
<u>Housing and Urban Development</u>			
Community Development Block Grant	3,635	1,000	4,178
Section 8 Tenant-Based Rental Assistance ³	15,206	0	16,189
Section 8 Project-Based Rental Assistance	6,868	0	7,468
Section 8 Administrative Fees	1,436	0	1,494
Public Housing Operating Fund	4,449	0	4,600
Public Housing Capital Fund	2,341	4,000	2,200
Homeless Assistance Grants ⁴	1,650	1,500	1,793
HOME Investment Partnerships Formula Grant	1,809	0	1,821
<u>Energy</u>			
Energy Efficiency and Conservation Block Grant ⁵	0	2,744	0
State Energy Program	25	3,100	38
<u>Environmental Protection Agency</u>			
Clean Water State Revolving Fund	689	3,969	2,450
Drinking Water State Revolving Fund	829	1,980	1,500

- (1) Funds appropriated for these formula grants in the American Recovery and Reinvestment Act of 2009.
- (2) Dollar amount includes non-formula grant funding that is not differentiated from formula grant funding in the Centers for Disease Control and Prevention budget.
- (3) Dollar amount is for contract renewals.
- (4) Dollar amount for FY 2010 includes Emergency Shelter Grant formula funding and competitive grant renewals and new projects.
- (5) The ARRA funding level is for formula funding only and excludes competitive grant and administrative funds.